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Market Development Reports

Market Snapshot: The Retail Industry

2009

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Report Highlights:
Mexico's mass grocery retail (MGR) sector is beginning to feel the impact of the global economic downturn. In spite of the current environment, supermarkets in Mexico continue to provide U.S. exporters with the best point-of-sales.

Includes PSD Changes: No
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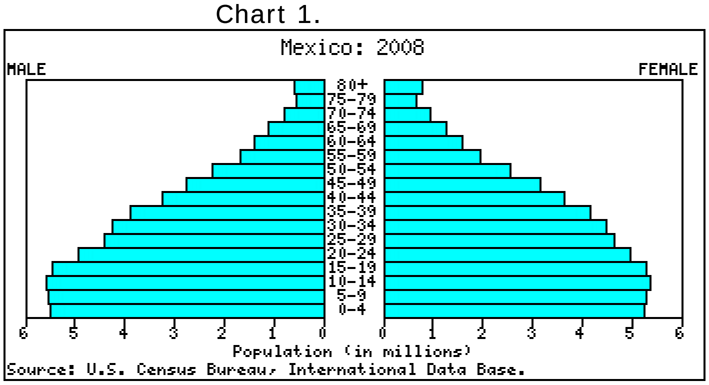
The Retail Industry in Mexico

Mexico's mass grocery retail (MGR) sector is beginning to feel the impact of the global economic downturn. In spite of the current environment, supermarkets in Mexico continue to provide U.S. exporters with the best point-of-sales. Convenience stores are also excellent venues for U.S. products. The two primary reasons for this success are the large number of outlets; the clients do not have to travel far and because convenience stores offer twenty-four hours a day service.

Supermarket Trends

Over the past decade, the standard of living in Mexico has improved significantly. Consequently, many are consuming goods and services that are more in line with developed countries. This factor along with an augmented population, younger consumers, increasing numbers of women in the work force and growing urbanization has led to changes in the landscape of the retail sector.

Chart 1.



Mexico is home to a young and increasing population, with an annual growth rate of 1.1percent. More than 10 million Mexicans fall between the ages of 15 and 19 and are currently entering, or will soon attempt to enter, the workforce and become active consumers (see Chart 1).

Both sales and the number of supermarkets are predicted to increase (see table 2), as retailers open supermarkets in niche areas where other formats have not succeeded. Therefore, supermarkets are beginning to expand their focus to lesser populated areas. According to the Instituto Nacional de Estadistica Y Geografia (INEGI), Durango, located in the Northern part of Mexico, and Oaxaca, situated to the south of Mexico City have exhibited the strongest growth in retail sales of all urban areas since 2003.

In 2008, Mexico's number 2 supermarket operator, Soriana, began converting some of the 198 outlets that it recently acquired from rival Gigante. The acquisition also included 7 stores located in the United States. The purchase gave Monterrey-based Soriana the opportunity to expand outside of northern Mexico where it has traditionally operated. This expansion will allow Soriana to compete more aggressively with Wal-Mart de Mexico SAB, the nation's largest retailer. The new format "Soriana Super" targets high-income earners in residential areas.

According to Mexico's National Retail Association (ANTAD), supermarket chains are expected to weather the financial downturn slightly better than department and specialty stores as customers delay discretionary spending on products like clothing or electronics. Unfortunately, the retail sector has already realized its first casualty due to the economic downturn. As a result of the declining peso, Comercial Mexicana (Contoladora Comercial Mexicana (CCM)), which is the third largest retailer and a Joint Venture partner with Costco, has asked a court for bankruptcy protection against creditors three times since November 2008. It was reported that in December 2008, Comercial Mexicana signed agreements with some of its creditors which would protect the retailer from any new lawsuits until March 2, 2009. All of the retailer's outlets are still operating but inventory has been an issue with the exception of the COSTCO stores, where vendors were assured payment from the U.S. based company. In the future Wal-Mart de Mexico and Soriana could benefit from the possible collapse of Comercial Mexicana if President Calderon's second package of measures to boost growth and generate employment is successful.

Table 1.

Supermarkets: Value Sales, Outlets and Selling Space 2002-2007						
	2002	2003	2004	2005	2006	2007
Value sales Mx$ million	68,469.9	70,568.4	72,151.3	79,695.8	102,607.6	115,946.2
Outlets	580.0	585.0	599.0	657.0	702.0	762.0
Selling Space '000 sq m	1,634.0	1,621.0	1,606.2	1,714.5	1,829.8	1,939.2

Source: ANTAD - Official statistics, trade associations, trade press, company research, trade interviews, Euromonitor International estimates

Table 2.

Supermarkets Forecasts: Value Sales, Outlets and Selling Space 2007-2012						
	2007	2008	2009	2010	2011	2012
Value sales Mx$ million	115,946.2	120,155.1	124,853.1	128,973.3	132,803.8	136,562.1
Outlets	762.0	772.0	782.0	791.0	800.0	809.0
Selling Space '000 sq m	1,939.2	1,997.7	2,062.9	2,116.8	2,164.4	2,209.2

Source: ANTAD - Official statistics, trade associations, trade press, company research, trade interviews, Euromonitor International estimates

Table 3.

Supermarkets Forecasts: Value Sales, Outlets and Selling Space: % Growth 2007-2012			
% growth	2011/12	2007-12 CAGR*	2007/12 TOTAL
Value sales Mx$ million	2.8	3.3	17.8
Outlets	1.1	1.2	6.2
Selling Space '000 sq m	2.1	2.6	13.9

Source: ANTAD - Official statistics, trade associations, trade press, company research, trade interviews, Euromonitor International estimates. *Compound Annual Growth Rate

Convenience Stores

Convenience stores, which have recently experienced the most dynamic growth in the retail sector, are also feeling the fallout from the global financial crisis. Mexico's Femsa, which owns the country's largest convenience store chain, Oxxo, predicts sales will fall this year. In an interview with Reuters in February 2009, Femsa's director of Oxxo stated that the outcome of the crisis meant that "Mexicans were cutting back on spending including on snacks and beer". He expects the impact to be small since the demand for food will not dissipate like it will for cars or other big ticket items. Femsa still anticipates opening 800 new Oxxo stores across the country this year.

Mexico continues to offer many new opportunities in the development of convenience stores, not only in major cities, but also in smaller cities and rural communities. This does not mean that independent stores will disappear in the next few years, but they will see a slight decrease in numbers due to the convenience store boom.

Oxxo, which only operates in Mexico, is the largest retail store chain in Latin America (based on unit numbers). Other, distant competitors include Comextra (with Extra stores), 7-Eleven de México (with 7-Eleven), and Grupo Kaltex (with Círculo K). Convenience stores are expected to maintain their growth, but at slightly lower rate than previously.

The smaller chains tend to compete in niche markets. Del Rio (Almacenes Distribuidores de la Frontera), for example, has a regional presence in the north of Mexico, while 7-Eleven is present in some upscale neighborhoods in cities and at a few service stations. Círculo K is becoming more visible at service stations.

In 2008, Wal-Mart de Mexico invested in a new convenience store format aimed at low-income consumers. The store is called Mi Bodega Express which is a smaller scale version of Wal-Mart de Mexico's discount chain Bodega Aurrera. The stores were opened in major Mexican cities such as Mexico City, Monterrey, Guadalajara and Tijuana.

Best Prospects

According to Wal-Mart's official website, Wal-Mart de Mexico has announced an unprecedented $11.8 billion peso (approximately $794million usd) investment plan for 2009. This plan will generate more than 14,500 new jobs and 25,000 indirect jobs. They will open 252 new units from its self-services formats (Bodega Aurrera, Walmart and Superama); Sam's Club and Suburbia apparel stores.

The outcome of Comercial Mexicana's financial predicament will dictate the future of its innovative City Market stores. City Market is a supermarket that is designed to serve the higher-end consumer by focusing on high quality and unique perishable products. CCM just opened its second City Market; both stores are located in Mexico City.

Superama has introduced a new line of organic foods under the private label Vía Verde. It also has an Internet portal where consumers can browse and shop for the latest products, or get access to gourmet lines.

Competition

Retail stores are modernizing and adding more freezer space to accommodate frozen foods, but the Mexican industry is now offering more frozen products that directly compete with imports. Major retailers are adopting modern, centralized distribution systems that should help U.S. suppliers compete with the delivery networks of Mexican producers. Domestic firms dominate the convenience store subsector, despite 7-Eleven having been the first chain to establish a presence in the country, over 30 years ago.

Import Duties and Taxes

The participation of a customs broker is suggested when the exporter is not familiar with Mexican standards and customs processing procedures.

A 15 percent Value Added Tax (IVA) is assessed on the cumulative value consisting of the U.S. plant value (invoice) of the product(s), plus the inland U.S. freight, export packing. The importer will pay other IVA fees for such services as the inland Mexico freight and warehousing. The IVA tax is only 10 percent for border area destinations. The IVA is recovered at the point of sale.

Trade Opportunities in Mexico

USA **ANTAD 2009**
March 11-13, 2009
Guadalajara Convention Center
Guadalajara, Jalisco
Internet: www.antad.com

USA **EXPHOTEL 2009**
June 17-19, 2009
Cancun Center
Cancun, Quitana Roo
Internet: www.exphotel.com

USA **ABASTUR 2009**
September 30 - October 2, 2009
Centro Banamex
Mexico City
Internet: www.remexexpos.com/abastur

USA USDA Endorsed Trade Shows

Key Contacts in Mexico

FAS/MEXICO EMAIL

To reach us at FAS/Mexico:

AgMexico@usda.gov, ATOMexico@usda.gov, or ATOMonterrey@usda.gov

Useful Mexican Web Sites:

www.sagarpa.gob.mx	Mexico's Department of Agriculture (SAGARPA)
www.economia.gob.mx.	Mexico's Department of Economy (SE)
www.antad.org.mx	National Retailers Asociation (ANTAD)

These websites are mentioned for the readers' convenience but USDA does NOT in any way endorse, guarantee the accuracy of, or necessarily concur with the information contained on the mentioned sites.

Other Relevant Reports:

MX8501 Retail Food Sector Report